

Message Text

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SUBJECT: CERP - ANNUAL TRADE OUTLOOK, ARGENTINA - 1975 - 1976

REF: A) CERP SEC. C 0006; B) BA A-127, APRIL 19, 1974

1. SUMMARY: PROSPECTS ARE FOR LITTLE GROWTH IN TRADE WITH ARGENTINA OVER THE NEXT TWELVE MONTHS. ARGENTINE EXPORTS ARE NOT EXPECTED TO GROW SUFFICIENTLY TO PERMIT RELAXATION OF CONTROLS CURRENTLY RESTRICTING IMPORTS, WHICH WILL PROBABLY DECLINE SLIGHTLY IN VOLUME OVER PREVIOUS YEAR. OUTLOOK FOR PRIVATE INVESTMENT IS UNCLEAR AT PRESENT AND DEPENDS IN LARGE MEASURE ON GOA'S ABILITY TO AVOID RETURN TO STRICT PRICE CONTROLS. GOA INVESTMENT PLANS WILL BE LIMITED BY LARGE BUDGET DEFICIT. DESPITE THESE RESTRICTIVE FACTORS, ARGENTINA WILL IMPORT ABOUT US\$3.75 BILLION DOLLARS WORTH OF GOODS DURING JULY 75-JUNE 76. SALES POSSIBILITIES ARE PARTICULARLY FAVORABLE IN THE ENERGY, PETROCHEMICAL AND STEEL SECTORS. END SUMMARY.

2. GIVEN THE RELATIVELY LOW LEVEL OF GROSS RESERVES MKT PRESENT (US\$700 MILLION - 2 1/2 MONTHS' IMPORTS) AND THE LARGE AMOUNT OF FOREIGN DEBT MATURING OVER THE NEXT YEAR,
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THE GOA WILL HAVE TO CLOSELY MONITOR AND CONTROL IMPORTS.

TOTAL ARGENTINE IMPORTS OVER THE TWELVE MONTHS AHEAD, JULY 1975-JUNE 1976, ARE ESTIMATED AT US\$3.7 BILLION, AS COMPARED TO US\$3.5 BILLION FOR THE PERIOD JANUARY 1974-DECEMBER 1974. THE VALUE OF IMPORTS, THEN, IS NOT EXPECTED TO INCREASE SIGNIFICANTLY, IN THE SHORT TERM, OR PUT ANOTHER WAY, THE VOLUME OF IMPORTS IS LIKELY TO DECLINE. OF THE TOTAL, APPROXIMATELY 66 PERCENT WILL BE PRIMARY AND INTERMEDIATE PRODUCTS SUCH AS COAL, METAL PRODUCTS, PULP AND PAPER, AND ORGANIC CHEMICALS, AND 30 PERCENT WILL FALL IN THE CAPITAL GOODS CATEGORY.

3. ON THE EXPORT SIDE, 1975 RESULTS ARE NOT LIKELY TO BE ENCOURAGING BECAUSE OF CONTINUING EEC STRICTIONS ON ARGENTINE BEEF EXPORTS AND A DECLINE IN EARNINGS FROM OTHER AGRICULTURAL EXPORTS, PRINCIPALLY GRAINS, BECAUSE OF CROP FAILURE AND PRICE DISINCENTIVES APPLIED IN THE RECENT PAST. WHILE EXPORTS OF MANUFACTURES, WHICH ROSE TO 30 PERCENT OF THE TOTAL IN 1974, MAY RECOVER SOMEWHAT FROM THE BEATING THEY TOOK AS A RESULT OF HIGH PACE OF INFLATION AND AN UN REALISTIC EXCHANGE RATE, IT WILL BE AN UPHILL CLIMB TO RECOVER LOST MARKETS, AND A RECOVERY WILL BE DEPENDENT ON THE GOA'S KEEPING TO ITS ANNOUNCED INTENTION TO MAINTAIN A REALISTIC EXCHANGE RATE. IN ANY CASE, INCREASED EXPORTS IN THIS CATEGORY ARE NOT EXPECTED TO COMPENSATE FOR THE DECLINE IN AGRICULTURAL EXPORTS.

4. IN VIEW OF BALANCE OF PAYMENTS PROBLEMS, THE ARGENTINE AUTHORITIES IN LATE FEBRUARY OF 1975 INSTITUTED A SERIES OF IMPORT CONTROL MEASURES DESIGNED TO RESTRAIN IMPORTS AND TO HALT AN INCREASINGLY SPECULATIVE INFLOW OF IMPORTS BY IMPORTERS WHO WERE TAKING ADVANTAGE OF THE OVERVALUED ARGENTINE PESO AND HEDGING AGAINST THE DAY THAT RENEWED IMPORT RESTRICTIONS WOULD BE APPLIED. THESE CONTROLS HAVE BEEN RECENTLY RELAXED IN CONJUNCTION WITH A MAJOR DEVALUATION WHICH TOOK THE PESO FROM \$15 TO \$30 TO THE US DOLLAR. OTHER MEASURES, DESIGNED TO REDUCE THE FLOW OF IMPORTS THROUGH USE OF THE PRICE MECHANISM, INCLUDE REQUIREMENTS FOR OBLIGATORY EXCHANGE RATE COVER (WITH A PREMIUM OF 100 PERCENT OF VALUE OF IMPORT) FOR ALL BUT CAPITAL GOODS IMPORTS, AND LONGER TERM FINANCING BY FOREIGN SUPPLIERS OF CAPITAL GOODS IMPORTS (CENTRAL BANK CIRCULAR 524 - UNCLASSIFIED

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SEE BA 2713). THESE MEASURES HAVE, IN FACT, HAD THE EFFECT OF DRAMATICALLY REDUCING THE NUMBER OF PENDING IMPORT APPLICATIONS FOR THE BALANCE OF CY 1975.

5. OTHER FACTORS ADVERSELY AFFECTING THE PROSPECTS FOR EXPANSION OF EXPORTS SALES TO ARGENTINA INCLUDE THE REDUCED OR NEGATIVE PROFITS OF MUCH OF PRIVATE AND NATIONALIZED INDUSTRY OVER THE PAST YEAR AND A HALF AS A CONSEQUENCE OF A PROLONGED PERIOD OF PRICE

CONTROLS. THOUGH PRICES OF MOST PRODUCTS WERE FREED IN JUNE 1975, A NUMBER OF "MARKET BASKET" ITEMS REMAIN CONTROLLED. GIVEN THE PROSPECT THAT INFLATION MAY WELL EXCEED 150 PERCENT ON AN ANNUAL BASIS BEFORE YEAR'S END, IT IS QUESTIONABLE HOW LONG THE GOA WILL BE ABLE TO RESIST A RETURN TO GENERALIZED PRICE CONTROLS. IN THIS EVENT, MUCH NEEDED INVESTMENT WILL CONTINUE TO BE POSTPONED. ADDITIONALLY, THE LARGE BUDGET DEFICIT WILL CONTINUE TO REDUCE THE AVAILABILTY OF OFFICIAL FINANCIAL RESOURCES FOR GOA SPONSORED INVESTMENT PROGRAMS.

6. THESE TRENDS WILL BE COUNTERBALANCED TO A CERTAIN EXTENT BY THE GOA'S ABILITY TO OBTAIN INVESTMENT CREDITS FROM INTERNATIONAL LENDING INSTITUTIONS (IDB, IBRD) AND SUPPLIER CREDITS FROM NATIONAL EXPORT FINANCING INSTITUTIONS (EXPORT-IMPORT BANK). SEVERAL LOANS FROM THE IDB AND THE IBRD, IN THE FIELDS OF ELECTRIC POWER, ROAD BUILDING AND FORESTATION WILL BEGIN TO BE DISBURSED OVER THE NEXT 12 MONTHS.

7. ADDITIONALLY, THERE ARE A NUMBER OF SECTORS WHICH HOLD PROMISE OF IMPORTANT SALES, WITH APPROPRIATE SUPPLIER FINANCING. THESE OPPORTUNITIES, IF PURSUED ACTIVELY, MIGHT EVEN RESULT IN AN INCREASED SHARE OF THE MARKET BY U.S. EXPORTERS, WHO IN 1974 CLAIMED 17 PERCENT OF THE TOTAL. THE ENERGY SECTOR HAS BEEN DECLARED PRIORITY BY THE GOA. HYDROELECTRIC AND NUCLEAR POWER DEVELOPMENT AND PETROLEUM EXPLORATION, THEREFORE, HAVE FIRST CLAIM ON AVAILABLE RESOURCES. THE POWER DEVELOPMENT PLAN IS PARTICULARLY AMBITIOUS; THERE ARE NOW FEWER THAN SIX MAJOR AND A SCORE OF LESSER HYDROELECTRIC PROJECTS UNDERWAY AT PRESENT. THE STATE-OWNED OIL COMPANY YPF IS UNDERTAKING AN EXTENSIVE PROSPECTING EFFORT TO LOCATE NEW SOURCES OF PETROLEUM, INCLUDING OFFSHORE EXPLORATION. IN THIS CONNECTION, IT HAS RECENTLY BEEN ANNOUNCED THAT

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THE FIRST NATIONAL CITY BANK (FNCB) OF NEW YORK IS IN THE PROCESS OF ORGANIZING TWO CONSORTIA OF PRIVATE BANKS FOR THE PURPOSE OF LOANING ARGENTINA US\$ 250 MILLION, PART OF WHICH WILL BE USED FOR SPECIFIC PROJECTS IN THE ENERGY SECTOR.

8. THE MAY 1975 DECISION BY THE GOA TO GO AHEAD WITH THE CONSTRUCTION OF THE "SATELLITE" PLANTS TO THE BAHIA BLANCA PETROCHEMICAL COMPLEX WILL PROVIDE IMMEDIATE OPPORTUNITIES FOR SALE OF ENGINEERING TECHNOLOGY, SERVICES AND PLANT EQUIPMENT, PARTICULARLY IF SUPPLIERS COME EQUIPPED WITH ATTRACTIVE FINANCING OFFERS. THE FIRST PLANTS TO COME ON LINE WILL BE:

- 1) LOW DENSITY POLYETHYLENE; 2) POLEFINES; 3) VCM; AND
- 4) CHLORINE AND CAUSTIC SODA. OTHER PETROCHEMICAL PROJECTS CURRENTLY UNDERWAY ARE FOR: 1) CAPROLACTAM; 2) METHYLMETACRYLATE;

3) POLYPROPYLENE; AND 4) METHANOL. ARGENTINA'S CONTINUING EFFORTS TO EXPAND DOMESTIC STEEL PRODUCTION SHOULD LIKEWISE PROVIDE OPPORTUNITIES FOR U.S. SALES. IT APPEARS THAT A TREND TOWARDS USE OF DIRECT REDUCTION TECHNOLOGY IN STEEL MAKING HAS BEGUN IN ARGENTINA, WITH A NUMBER OF THE MAJOR PRODUCERS LEANING TOWARDS INSTALLATION OF THEIR FIRST DIRECT REDUCTION FACILITIES (SEE BA A-148.). THE CURRENT SHORTAGE OF INVESTMENT CAPITAL IN ARGENTINA GIVES IMPULSE TO THIS TREND.
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